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***One Hundred Twenty Day Report and  
Financial Improvement Plan of the Receiver  
for  
Union Elementary School District, No. 62***

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*Peter S. Davis as Receiver for UESD*

*Simon Consulting, LLC*

*October 15, 2007*

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## **Documents Reference List**

1. House Bill 2612, An Act Establishing Procedures Providing For School District Budget Miscalculation Correction.
2. Order, In the Matter of: Union Elementary School District, No. 62, Case Number 2007-002
3. Performance Review, Union Elementary School District, August 2007
4. Arizona Revised Statutes § 15-103
5. Arizona Revised Statutes § 15-272
6. Arizona Revised Statutes § 15-301
7. Arizona Revised Statutes § 15-302
8. Arizona Revised Statutes § 15-303
9. Arizona Revised Statutes § 15-304
10. Arizona Revised Statutes § 15-306
11. Arizona Revised Statutes § 15-980
12. 2006-07 Annual Financial Report (“AFR”) (Draft)
13. The Revised fiscal 06-07 expenditure budget for Union Elementary School District
14. The Proposed fiscal 07-08 expenditure budget for Union Elementary School District
15. The Adopted fiscal 07-08 expenditures budget for Union Elementary School District
16. The Arizona Department of Education Expenditure Budget Report for Fiscal Year 2007 for Union Elementary School District
17. The Arizona Department of Education Expenditure Budget Report for Fiscal Year 2006 for Union Elementary School District
18. Preliminary “Fiscal Year 2006-07 Expenditure Budget Balance Report for Union Elementary School District No. 62, June 29, 2007
19. Arizona District Report Card 2006-07, Union Elementary School District
20. Arizona School Report Card Academic Year 2006-07, Union Elementary School
21. Arizona School Report Card Academic Year 2006-07, Hurley Ranch Elementary
22. Achievement Profiles for Union Elementary School from AZ Learns/AVD for 2007, 2006, 2005 and 2004
23. Achievement Profile for Hurley Ranch Elementary from AZ Learns/AVD for 2007 and 2006

## Attachments

1. Order, In the Matter of: Union Elementary School District, No. 62, Case Number 2007-002
2. Arizona Revised Statutes § 15-103
3. Performance Audit, Union Elementary School District, State of Arizona, Office of the Auditor General, August 2007
4. Intergovernmental Agreement and Cooperative Purchasing Agreement Between Union Elementary School District No. 62 and Tolleson Elementary School District No. 17
5. Achievement Profiles for Union Elementary School for 2007, 2006, 2005, and 2004
6. Achievement Profiles for Hurley Ranch Elementary School for 2007 and 2006
7. 2006-07 Annual Financial Report (Draft)
8. SAIS BUDG75 Reports for Union Elementary School District for FY 2007, FY 2006, FY 2005, and FY 2004
9. Calculation worksheets for Proposed Primary and Secondary Tax Rate for Union Elementary School District and Tolleson Elementary School District
10. State of Arizona Department of Education, Statement of Assurance form
11. State of Arizona Department of Education, Declaration of Curricular & Instructional Alignment to the Arizona Academic Standards form
12. I-1050, IGD, Curriculum Adoption
13. I-1100, IGE, Curriculum Guides and Course Outlines
14. I-1111, IGE-R, Curriculum Guides and Course Outlines Regulation
15. J-4600, JK, Student Discipline
16. J-4611, JK-R, Student Discipline Regulation
17. Union Elementary School District Professional Staff Application form
18. Union Elementary School District 2007-2008 Professional Staff Handbook (Certified & Exempt)
19. Union Elementary School District 2007-2008 Professional Staff Evaluation Handbook
20. Union Elementary School District Support Staff Application form
21. Union Elementary School District 2007-2008 Support Staff Handbook (Classified & Exempt)
22. Union Elementary School District 2007-2008 Adopted Certified Salary Schedule and Support Staff Wage Schedule

## Executive Summary

The Receiver, appointed by the State Board of Education on June 25, 2007 has completed an initial evaluation of the Union Elementary School District, No. 62 (“UESD” or the “District”). In addition, the Receiver has taken control of all administrative, financial, and operational responsibilities for UESD. Cost cutting efforts implemented by the Receiver include overall staff reductions, reorganization and reduction of administrative staff, reorganization of the transportation department, the reduction of travel expenses, decreased utility bills, improved accounting controls, reduced number and usage of cell phones, more limited district credit card usage and the utilization of administrative and financial resources under an Intergovernmental Agreement (“IGA”) approved with Tolleson Elementary School District (“TESD”). These changes have decreased the operating costs for the District and set the stage for savings through improved fiscal responsibility in future years.

The Receiver desires to implement a financial improvement plan as required by ARS § 15-103. Execution of the financial improvement plan requires the extension of certain authoritative powers previously granted to the Receiver by the State Board of Education. The Receiver requests that the Board extend the authority of the Receivership as enumerated in sections (F)(1) through (F)(11) of ARS § 15-103.

As part of the financial improvement plan, the Receiver is in the process of turning control of the school operations over to the interim superintendent and administrative staff as part of the IGA with TESD. By transferring day-to-day operations to these positions while retaining oversight and decision-making authority, the Receiver will minimize future expenses incurred by the Receivership without compromising the financial integrity of the District.

The adopted budget proposed that the District to pay back approximately \$200,000 to the State of Arizona in fiscal year 2007-08.<sup>1</sup> As a result of the Receiver’s ongoing investigation, the total M & O budget over expenditures now totals \$2,170,173, making it very likely that no repayment will be made during the 2007-2008 school year. It is the opinion of the Receiver that the District may not be able to pay all outstanding debts within the allotted five years without reducing the quality or diversity of educational options available to the students attending UESD. Property tax increases may be required to provide adequate cash for the continued operation of the District, although the District may be nearing the tax rate limit.

There are numerous indicators of gross financial mismanagement by the previous administration documented in the body of this report. The Receiver’s investigation is ongoing and any new findings may require updates to the information contained in this report.

The Receiver desires to implement the financial improvement plan set forth above as required by ARS § 15-103. While part of this plan contemplates reduced involvement of the Receiver in day-to-day operations of the District, the District’s serious financial condition and the lack of

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<sup>1</sup> State payback numbers based on uncertified expenditure budgets and worksheets. Events outside of the Receiver’s control or ability to forecast may significantly alter calculated results.

available options for recovery requires substantial continued involvement by the Receiver. Execution of the financial improvement plan requires the extension of all authoritative powers previously granted to the Receiver by the State Board of Education. The Receiver therefore requests that the Board extend the authority of the Receivership as enumerated in sections (F)(1) through (F)(11) of ARS § 15-103.

The Receiver believes UESD requires Legislative assistance to fix its dire financial and educational situation.

## **Background**

Union Elementary School District ("UESD") serves students in the Tolleson area, approximately 25 miles west of downtown Phoenix. UESD's 2006-2007 ADM was about 1,340 students but UESD has been one of the fastest growing districts in Arizona for the past several years. This high growth expected to continue in the near future. UESD operated two schools in the 2006-07 academic year, Union Elementary and Hurley Ranch. A third school, Dos Rios, was opened for the 2007-08 academic year.

## **Timeline of Events**

### **a) July 2004**

- i) Greene is promoted to the position of Superintendent of UESD for the 2004-2005 school year.

### **b) June 2005**

- i) UESD overspent its 2004-05 budget by \$6,998. UESD was expected to repay that overage in the 2005-06 fiscal year.

### **c) January 2006**

- i) The Auditor General's Office of the State of Arizona conducted a Compliance Review and issued a report on January 11, 2006 informing UESD that it had not complied with the Uniform System of Financial Records ("USFR") and UESD was given 90 days to implement changes. The report cited six areas of concern:
  - (a) UESD did not follow competitive bidding guidelines
  - (b) UESD did not ensure that adequate budget capacity existed in the M&O budget before authorizing expenditures

- (c) UESD did not adequately track capital assets
- (d) UESD did not accurately maintain student attendance counts
- (e) UESD had insufficient controls over the payroll processing, including inaccurate documentation and missing confirmation signatures
- (f) UESD did not maintain adequate controls over student activities money

**d) June 2006**

- i) UESD overspent its 2005-06 budget by \$968,535. High growth in student ADM was blamed for the overage, according to then-Superintendent Greene. UESD was expected to repay the total overage of \$975,533, which included the \$6,998 overage from 2004-2005, over the next two fiscal years.

**e) September 2006**

- i) The Auditor General's Office completes the Status Review required by the 90 day letter issued in January 2006 and finds that UESD has still has not complied with the applicable USFRs and asked the Arizona State Board of Education to take appropriate action under ARS 15-272.

**f) May 2007**

- i) The Maricopa County School Superintendent refuses to honor warrants drawn for payroll at UESD, citing insufficient funds and no budget capacity. House Bill 2612 is subjected to a "Strike All" amendment and is changed to require the Arizona State Board of Education to place UESD into receivership and provide a five year window for repayment of the accumulated overages.

**g) June 2007**

- i) The District was placed in receivership by the Arizona State Board of Education pursuant to A.R.S § 15-103 and HB 2612. Simon Consulting was appointed as the Receiver<sup>2</sup> for UESD on June 25, 2007.<sup>3</sup> The Receiver interviewed the individuals who held responsible positions in administration (superintendent, business manager, HR manager, operations manager, principals, etc.) to gain an understanding of the issues and to facilitate a smooth transition of leadership in the District. Greene informed the Receiver that he believed that the total over expenditure for the 2006-2007-school year would not exceed \$700,000.

Preliminary analysis performed by the Receiver on the to-be-proposed budget showed a number of troubling issues. First and foremost, the budget prepared by the UESD Superintendent, Justin Greene, and the UESD Business Manager, Lisa

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<sup>2</sup> "The Receiver" is defined as Peter S. Davis, principal of Simon Consulting and employees of Simon Consulting acting on the directions of Peter S. Davis.

<sup>3</sup> "Order" Case number 2007-002, In the matter of: Union Elementary School District No. 62. Issued June 25, 2007.

Smith, showed a preliminary amount in excess of \$9.6 million, compared with a projected budget authority of just under \$6.9 million. Despite that large discrepancy in the budget, large raises were proposed for the upper level administrative staff, including a 13% increase for the Business Manager, a 24% increase for the Superintendent, and a 38% increase for the Operations Director. Items such as two new automobiles, three new copiers, a new tractor, and other similar proposed expenditures led the Receiver to the conclusion that the current administration did not have adequate control over spending and management of the budget process.

The Receiver immediately took steps to control expenditures within the District. The Receiver required that all expenditures be approved by the Receiver. No employee or Governing Board members were authorized to approve expenses without prior consent from the Receiver. Overtime, which contributed significantly to the prior years budget overage, was ordered curtailed by the Receiver. The Receiver enlisted expert help from TESD to assist in the preparation of the proposed budget for the 2007-08 fiscal year, which was due by July 3, 2007. Mr. William Christensen (TESD Superintendent) and Mr. Daniel O'Brien (TESD Business Manager) worked with the Receiver to arrive at the proposed budget in a timely manner.

#### **h) July 2007**

- i) The Receiver decided that a change in leadership direction at UESD was necessary and began the process to negotiate the resignations of both Greene and Smith. At the same time, the Receiver entered into negotiations with TESD to have Christensen and TESD provide superintendent and administrative services for UESD under an IGA. The IGA was approved by the TESD Board on July 11, 2007 and the UESD Board on July 13, 2007. The UESD Board also accepted the negotiated resignations of Greene and Smith at the July 13, 2007 meeting.
- ii) The accounting software system used by UESD is the Vision software platform. The Visions software system was designed specifically for Arizona School Districts and is based on either Microsoft Access or SQL Database software (depending on the version of the software UESD). The Receiver, working with Christensen and O'Brien under the IGA, arranged to have direct access to the Visions system in order to better monitor the expenditures of the district. Authority was granted by the Receiver to Christensen and O'Brien to approve expenditures under \$5,000. The Receiver must approve all expenditures in excess of \$5,000.
- iii) UESD purchased the Genesis system to track the attendance at the three schools, upon a recommendation by Christensen and approval by the Receiver. UESD had been using the Student Accountability Information System ("SAIS") system previously and that system proved inadequate, leading to student attendance reporting errors identified as a USFR violation by the Auditor General. Another benefit includes the reduction in employee time to complete the same tasks. Prior to the software conversion, the UESD staff was comprised of full-time attendance



clerks at each school. Without this change, an additional attendance clerk would need to be added for the new school. Following the implementation of the Genesis software the Receiver was able to reduce the number of attendance clerks required to accurately enter the data. This improved efficiency is due in part to the software conversion.

- iv) An order for a new tractor for landscape maintenance was also cancelled, at a savings of approximately \$50,000.
- v) Additional savings were identified under the IGA by including items such as bus fuel (approximately 60 cents per gallon savings), text book purchasing (lower cost and elimination of a 15% surcharge for delivery), and office supplies (copy paper at a savings of almost \$2.00/ream).
- vi) The Auditor General of the State of Arizona notified the Receiver that UESD had been randomly selected for a Performance Audit for the 2006-2007 school year. The report was presented to the Receiver to show the findings of the audit and to allow the Receiver to respond to the recommendations contained in the report, as required by Arizona statute. Among the areas sighted as issues for UESD were:
  - Overspending of the allowed M&O budget amount – UESD’s M&O budget was overspent by more than \$1,000,000 in the 2006-2007 school year.
  - High student transportation costs – UESD spent substantially more than comparable districts.
  - High plant operation and Maintenance costs – UESD spent 41% more than comparable districts, primarily due to overtime costs and energy usage.
  - Proposition 301 monies accounting – UESD did not have a Governing Board approved plan.
  - Insufficient classroom funding – UESD spent less money in actual classroom dollars due to overspending in other areas.
  - English Language Learner program – UESD did not have a program in place to meet the needs of the ELL students.
- vii) Several contracts for the busing of special needs students were reviewed by Christensen and O’Brien, as well as the Receiver. Several questionable practices were uncovered during the review process and these contracts were ultimately cancelled. The total expenses for these two contracts in the 2006 and 2007 fiscal years totaled more than \$400,000<sup>4</sup>. RFPs have just been recently found and are being investigated. However, the RFP was issued and awarded to vendors who had already exceeded state procurement thresholds. Not following proper procurement procedures was one of the findings of the USFR Compliance Audit discussed earlier.

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<sup>4</sup>

Performance Audit of Union Elementary School District, Office of the Attorney General, July 2007, page i.

- viii) Given the change in administration leadership, the starting date for school was pushed back from July 30, 2007 until August 13, 2007 to allow more time to properly prepare for the new year.

**i) August 2007**

- i) The Receiver and Christensen prepare UESD's response to the Performance Audit Report and submit it to The Office of the Auditor General.
- ii) All overtime was eliminated by Christensen to save the District budget capacity and to ensure all personnel were properly encumbered in the budget. Hourly workers who were not needed were sent home to ensure the no overtime rule was enforced. Some hourly workers who had been working under a twelve month contract had their contracts reduced to a ten month contract. Additionally, the majority of eight (8) hour employees were reduced to six (6) hours per day. UESD will also be utilizing a "blackout" period over all intersession and school breaks allowing only essential positions to be working. This allows UESD to save budget money and utilize employment resources in a more efficient manner.
- iii) The Receiver continued the evaluation of administrative personnel and eliminated several additional positions. These actions were approved by the Board at their August 9, 2007 meeting. The Board also approved the Receiver as having the authority to approve warrants for payment without requiring Board approval for each warrant.
- iv) The Board approved and the Receiver submitted a request for a cash advance in the amount of \$2,000,000 to the State Board of Education. This advance is necessary to cover a shortfall in cash until the tax collections are available in November 2007.
- v) The current Board President, Elaine Dawson, submitted her resignation. The Receiver informed Dr. Sandra Dowling, the Maricopa County Superintendent of Schools, of the resignation. Dr. Dowling began the process to find a replacement in accordance with applicable Arizona law. In late September, Joshua Hitt was appointed to serve the remaining term as a UESD board member by Dr. Dowling.
- vi) The Receiver was notified by the State Board of Education that his request for the cash advance had been approved in the amount of \$1,800,000, \$200,000 less than our request. No reason was provided for the reduction. This will assist in the cash flow management of the district.
- vii) TESD personnel have been enlisted to provide guidance to UESD in areas such as maintenance and landscape. Proposals are being designed that will reduce water and electricity usage to further reduce expenditures and return more money to the classroom.

- viii) School bus routes are redesigned to reduce gasoline expenditures as well as overtime costs for excessively long routes. TESD buses and drivers may be used when necessary, under the IGA, to further control expenses in this area. Mandatory drug test rules are enforced for all bus drivers and management personnel. One administrative staff member failed a drug test and was placed on unpaid leave. This staff member later resigned voluntarily.
- ix) Food expenditures are also being analyzed with an eye to reducing costs in both the food and labor areas. TESD personnel are reviewing the procedures in place at UESD and making recommendation to Christensen for changes and improvements.
- x) The Receiver appointed Dr. Diane Hamilton, the former Superintendent of TESD, to the position of Chief Education Officer for UESD. Dr. Hamilton immediately began several reviews of UESD policies and procedures to develop criteria to assess the current condition at UESD. Several issues regarding personnel policies and performance evaluations were identified and addressed by Dr. Hamilton. A new Personnel Manual for Teachers was created and given to all teaching staff. A new Professional Staff Handbook (Certified & Exempt) and a new Professional Staff Evaluation Handbook were also prepared and distributed to appropriate personnel.
- xi) The Principal at Union Middle School resigned one week before the start of school. An interim Principal, Robert Haley, has been appointed to that position and will serve in that capacity for at least two days per week for the remainder of the school year and will be assisted by TESD staff. Mr. Haley is the husband of Dr. Hamilton but does not report directly to her to avoid any conflict of interest. There is also no policy that prohibits this. This position requires a dedicated educator since Union Middle School was declared a “failing school” by the ADE in 2006 and will carry this label again in 2007. In response to the low math and reading test scores that led to the failing school label, Christensen has increased class periods from the normal 40-50 minutes to 90 minutes in an effort to provide additional learning time and show academic improvement.
- xii) The Office of the Auditor General publishes the Performance Audit Report for Union Elementary School District, along with the district’s responses.
- xiii) Attendance numbers continue to increase although not at the rate that had been predicted by the previous administration. Pre-enrollment showed an expected enrollment for the opening of the 2007-08 school year of 1,789 students (1,685 ADM) but first day numbers on August 13, 2008 showed only 1,638 students (1,539 ADM). These numbers are still significantly higher than the 100 day count of the 2006-07 school year which was 1,414 students (1,333 ADM). By day three, August 15, 2008, the student count had already risen to 1,684 (1,580.5 ADM). Hiring procedures for teachers are begun to maintain class sizes at acceptable levels.

An unidentified number of students are attending other nearby districts due to the financial and educational issues affecting the District. The Receiver believes that that trend will continue, at least in the near term.

- xiv) The Principal at Dos Rios, Ms. Laura Hartman, resigned effective August 31, 2007 to accept a position with the ADE. Ms. Kim Glenn was appointed to assume that position, effective on the same date. Ms. Glenn had been the Special Education Director at UESD and prior to that had been an administrator in the Peoria Unified School District.

**j) September 2007**

- i) The 2007-2008 over expenditure continued to increase as more invoices were received by the District that were not anticipated. Many of these invoices did not have proper purchase orders issued. Various bond fund expenditures were misclassified and corrected. It is possible that the 2006–2007 over expenditure could reach \$1,300,000 before the final accounting is completed by the Receiver, which is approximately \$800,000 more than was represented to the Receiver by then-Superintendent Greene. The following table shows the budget variances for UESD for the last several years.

	2003-2004	2004-2005	2005-2006	2006-2007
Budget Variance	62,959	(6,998)	(968,535)	(1,194,640)
Cumulative Deficit	None	(6,998)	(975,533)	(2,170,173)

Amount for 2003-2004, 2004-2005, and 2005-2006 taken from the BUDG 75 reports. The amount for 2006-2007 is from the 2006-07 Annual Financial Report.

- ii) The District began to function as a self-sustaining organization, under the guidance of Mr. Christensen, irrespective of the continued financial crisis of the 2006-2007 over-expenditure. The Receiver's presence is not required on-site on a regular basis to ensure daily operations are completed. The Receiver continues to perform on-site monitoring at the District, assisting with accounting, staffing and budgeting operations in coordination with Christensen. The Receiver continues to monitor or review expenditures, either in person or by access to the Visions system.
- iii) The Receiver and Christensen attended a meeting with the Arizona State Legislature Senate K-12 Education Committee and the House K-12 Education Committee, Committee of Reference to explain the District's response to the Auditor General's Performance Audit Report and to answers additional questions asked by the legislators.

**k) October 2007**

- i) The elimination of a position currently held by Adrian Hernandez as Operations Manager was approved by the Receiver. The position elimination date is October 31, 2007.
- ii) The Home School Liaison position was deemed a duplicated position within the district, and was eliminated.

- iii) The Receiver submits an interim 120 day report on October 15, 2007 to the Arizona State Board of Education to inform the Board of the progress and findings of the Receiver, and for the Board to approve the report and grant the authorization necessary for the Receiver to execute the financial improvement plan.

## **Reported Mismanagement**

### **State Board of Education Order**

On June 25, 2007, the Arizona State Board of Education entered an order which placed Union Elementary School District No. 62 in Receivership pursuant to ARS § 15-103, and appointed a Receiver for the District. The order cites the State's Proposed Findings of Fact, Conclusions of Law, and Order <sup>5</sup> (the "Proposal") issued by Attorney General Terry Goddard on behalf of the State of Arizona, the Executive Director of the Arizona State Board of Education, and the State Superintendent of Instruction as the reason for the order. In the Proposal, allegations are made against UESD for financial mismanagement, as follows:

- a) In the 2004-05 school year, the District overspent its allowable budget by \$6,998.
- b) In the 2005-06 school year, the District overspent its budget by \$968,535.
- c) Unfunded warrants: In fiscal year 2006-07, the District issued warrants for teachers' salaries and other expenses without having sufficient funds to satisfy the underlying obligations. These warrants were refused by the Maricopa County School Superintendent's office.

### **Receiver's Investigation – Gross Financial Mismanagement**

Many instances of gross financial mismanagement have been identified in the course of the Receiver's investigation for the preparation of this 120-day report. These instances are detailed below.

1. **Fiscal Year 2006-2007 Overspending** – When the Receiver was appointed by the State Board of Education on June 25, 2007, then-Superintendent Greene stated that the anticipated overspending for the 2006-2007 fiscal year would not exceed \$700,000. During the course of the Receiver's investigation, it became readily apparent that this amount was grossly inaccurate. Many purchases were made during the last several months without proper procurement procedures or purchase orders and invoices for these purchases were received by the District as late as the end of September. As of the date of this report, the 2006-2007 fiscal year M & O overspending is \$1,194,640. <sup>6</sup>
2. **Copier Purchases** – Three new copiers were ordered at a cost of \$11,000 each. These copiers were delivered by the company without a purchase order, with the understanding

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<sup>5</sup> Arizona Attorney General, "Petition RE: Gross Financial Mismanagement and Request for Appointment of a Receiver and Other Relieve" Case Number 2005-001 August 12, 2005.

<sup>6</sup> 2006-07 Annual Financial Report, page 3.

that the Greene would issue the purchase order after the new fiscal year began. The Receiver was appointed just before the beginning of the 2007-2008 fiscal year and stopped the issuance of the purchase order and payment for these copiers. The copiers were eventually returned to the supplier and the District has no further liability for payment.

3. **Fund 630 Misclassifications**– Fund 630 is the fund where the accounting for the revenues received from bond sales and the authorized expenditures from the bond proceeds occur. Various expenses were inappropriately charged to Fund 630. These included the following:

PO 70010	Transmission extended warranty
PO 70038	Miscellaneous tools
PO 70111	Miscellaneous shop supplies
PO 70112	Miscellaneous shop supplies
PO 70113	Miscellaneous shop supplies
PO 70795	Installation of radios in Busses
PO 70825	Installation of radios in Busses
PO 70847	Installation of radios in Busses
PO 70303	Cameras
PO 70760	Ford SUV's
PO 70007	Kronos
PO 70011	Tractors
PO 70800	Golf Carts
PO 70219	Ford Truck
PO 70054	Survey to deploy wireless bridge
PO 70090	Vision software
PO 70430	Kronos
PO 70326	Miscellaneous steel supplies
PO 70333	Data and phones

The Receiver authorized the reclassification of these expenses, totaling \$194,156, from Fund 630 to Fund 610. Fund 610 is where accounting for the capital expenditures associated with the budget occurs. Additional bus leases and a copier lease came to light during the Receiver's investigation, resulting in an additional charge of \$362,045 to Fund 630. The Receiver is attempting to have these leases renegotiated or cancelled. This leaves Fund 630 with a negative \$55,642 balance. This also creates a negative position in Fund 610 which will have a negative balance of \$118,247 after the transfer.

4. **Automobile Purchases** – Two new alternative-fuel Ford Escape vehicles had been ordered from Five Star Ford at a cost of approximately \$40,000. These vehicles were ordered during the 2006-2007 fiscal year with the understanding that a purchase order would be issued and delivery would be made after the beginning of the 2007-2008 fiscal year. The vehicle purchase first came to the Receiver's attention after the interim business manager was contacted about delivery. The Receiver cancelled the order for the vehicles and Five Star Ford retained control of the vehicles. The District has no further liability with regard to these vehicles.

5. **District-issued Credit Cards** – The District had three gasoline credit cards outstanding of which two have been recovered. It is believed that the third card is in the possession of the previous business manager. Christensen is attempting to contact that person to recover the last gas credit card.
6. **Bus Transportation Contracts** – Bus contracts for the transportation of special education students were awarded in the fiscal 2006-2007 year without complying with procurement rules or creating purchase orders. Nevertheless, more than \$400,000 was paid under these contracts. Requests to these companies for purchase order and license information went largely ignored. The Receiver stopped using these companies as of July 31, 2007 and is now utilizing TESD administrative staff to coordinate bus routes utilizing UESD staff.
7. **Purchase Order/Procurement Issues** – UESD was using Visions software for their required accounting. Procurement policy was not followed in many instances. Safeguards in the Visions software were circumvented by UESD personnel, allowing UESD to issue purchase orders even when no budget capacity remained. Additionally, as discussed above, many purchases were made by UESD personnel without purchase orders being created, making it difficult to know if any budget capacity remained. In fact, as shown by the large over-expenditure, budget capacity did not exist and the District simply spent funds it did not have. This led to both budgetary and cash-management problems. As of July 31<sup>st</sup>, 15 invoices have been processed by UESD that do not have purchase orders. The services covered range from travel to fire alarm monitoring. The following is a list of the processed amounts:

Invoice	Amount	Notes
Travel for Melanie Blaum	193.20	
Travel for Alea Fraker	60.00	
Riso	759.20	
Costco	1,265.31	
Travel Kim Glenn	1,167.64	
Arizona Air Boutique	539.96	
Fire Security Electronics	36.65	
American DataBank	1,015.00	P/O on file was for insufficient amount
Follett	96,000.00	P/O on file was for previous year
Concentra	459.61	
Riso	967.70	
M4E Industries	336.00	
Arizona Valley Trans.	1,508.00	
Black Box	450.46	
Copperstate Tech	1,500.00	
Total	<u>\$106,258.73</u>	

In each case, the Receiver confirmed that services were rendered or goods were provided to the District and that the billed amounts were reasonable.

New procedures have been instituted by the Receiver to eliminate purchases without purchase orders. No purchases can be made without the approval of the interim superintendent or business manager (under \$5,000) and/or approval by the Receiver (over \$5,000). In addition, the VISIONs Software budget control devices have been activated and only controlled by the receiver and Christensen.

8. **Contracts and Salaries** – At a time when the District was overspending its budget by more than \$2.0 million, the administration, with the Governing Board’s approval, negotiated contracts for themselves with significant raises, as follows:
  - a. Superintendent Greene, from \$92,950 to \$115,600, a 24.4% increase
  - b. Business Manager Smith, from \$65,000 to \$73,530, a 13.1% increase
  - c. Operations Manager Hernandez, from 46,608 to \$64,392, a 38.2% increase
  - d. Human Resources Manager Ceja, from \$46,608 to \$68,960, a 48.0% increase
9. **School Facilities Board (“SFB”) Fund 695 cost over expenditures** – The Receiver’s investigation uncovered several unpaid invoices attributable to Fund 695, which are:

Company	Amount	Notes
Dell computers	\$198,604	Classroom computers
Sentinel Technologies	\$224,818	Network infrastructure
ADM Group	\$45,000	Dos Rios design
Adolfson & Peterson (A&P)	\$1,798,191	Dos Rios construction
A&P (Should be paid from Fund 620 -Adjacent Ways)	\$750,000	Estimate only
Total	<u>\$3,016,613</u>	

The Sentinel purchases are currently being investigated. Sentinel provided copies of several invoices but most of the invoices were for change orders that do not have P/O’s associated with them. One of the main concerns is the projectors which may have been purchased from another company through Sentinel. The projectors also have another issue in that there is no power for the projectors to operate. The then-current operations manager indicated that the design was to place a J-box on the bottom of the deck framing. During a required inspection, the electrical inspector from the City of Phoenix indicated that the plug needed to be in the ceiling. Additional work in this area has been postponed while more information is obtained.

There is a cash balance of \$416,634 and School Facilities Board (“SFB”) funds of \$486,297 that can be used to settle these outstanding invoices. That will still leave a shortfall of \$1,363,682 plus the amount owed from Adjacent Ways for a total in excess of \$2,100,000.

10. **Lack of funds to pay creditors** – The total M & O budget overage to be repaid to ADE totals approximately \$2,200,000. In addition, the \$2,100,000 discussed above in item 9 is also overdue. UESD is unable to pay its creditors on a timely basis.



11. **High Primary and Combined Tax Rates** – The overspending of the last several years by the previous UESD administration has had a negative effect on both the primary and combined property tax rates. UESD taxpayers are currently assessed at \$5.5116 per \$100 of assessed valuation for the primary rate and \$1.2347 per \$100 of assessed valuation for the secondary rate, resulting in a combined rate of \$6.7463 per \$100 of assessed valuation. These compare to TESD’s rates of \$2.0366 for primary and \$2.1746 for secondary, for a combined rate of \$4.2112. UESD may be approaching the tax rate limit.

### **Receiver’s Investigation – Education and Administration Issues**

The Receiver performed an investigation of the educational programs and policy matters within UESD. The Receiver was assisted by staff from TESD in performing this investigation. The issues identified are discussed below.

1. **Failing/Under Performing Schools** – Union Elementary/Middle School has been classified as a failing school by the Arizona Department of Education. It has received an underperforming rating since at least 2004. While there has been some improvement in the scores from 2006 to 2007, it is primarily due to moving to a middle school format for 2007. The school has failed to make even minimal Average Yearly Progress (“AYP”) for the last two years. In meetings with TESD staff, it quickly became apparent that the UESD teachers had no knowledge of what the Arizona School Improvement Plan (“ASIP”) was or what it required the school to do. To make matters worse, Hurley Ranch School has now declined into the underperforming category for the 2007 year. TESD staff members are working with the UESD principals and teachers to begin the ASIP process in both schools. Dr. Hamilton and the TESD staff are also working with the Deputy Superintendent of ADE and the two ATLAS teachers already assigned to Union Middle to make the necessary changes to improve the ratings.
2. **Special Education Program Not in Compliance** – UESD is not in compliance with special education requirements, as noted below. It is unlikely that UESD will be able to become compliant in the short-term, given the constraints of the current financial condition.
  - a. **Consent for Evaluation forms not completed in accordance with required timelines** – Once the parent returns the signed initial evaluation form, the District is required to complete an evaluation or provide a written response of denial, with the reasons for denial, within 60 days of consent. An Individual Education Plan (“IEP”) needs to be written within 30 days of an evaluation that determines eligibility for special education services. These procedures were not being followed by UESD.
  - b. **IEP paperwork incomplete and/or not containing all of the correct forms required by law** - Certain items must be included in the IEP: Present levels of performance, annual goals, statement of related services, frequency and duration of services, how goals will be measured, participation in District and State tests, etc. In many cases, IEP paperwork is missing or incomplete.

- c. **Reevaluations not completed in required timelines** - All IEP's must be reviewed at least annually to be sure that the goals are appropriate. IEP's are due for reevaluation every 3 years. The IEP team must meet to decide whether enough data exists to continue services without additional evaluation or to conduct evaluations to determine student's current strengths and challenges. It does not appear that the previous UESD administration adhered to this practice.
  - d. **Students not receiving correct amount of special education service time** - IEP's are written to contain a specific amount of service time for the student. Usually written in daily or weekly amounts (30 minutes daily for reading, 150 minutes weekly for reading, etc.). Some UESD students were overserved and some underserved, with one case of a student not being served after three weeks of school.
  - e. **Attendees at IEPs were not within legal requirements** - At an IEP meeting, the minimum attendees must include the parent, special education teacher, a regular education teacher of the student, and a Local Education Agency ("LEA") representative, usually the Principal. If testing was conducted, a person that can interpret the test results (qualified evaluator) is also required. The files showed that UESD was out of compliance with these requirements.
3. **ELL Program Not in Compliance** – UESD is not compliant with either existing or the newly adopted requirements for ELL students. The Arizona Auditor General's office noted these deficiencies in their Performance Audit Report dated August 2007. The following issues were noted during the Receiver's investigation:
- a. Inability to properly identify ELL students – UESD is currently using a Home Language Survey instrument which is not acceptable to ADE. ADE requires the use of AZELLA test to properly identify ELL students.
  - b. No training – No formal training has been provided to District staff in the administration and use of the AZELLA test.
  - c. Language Issues with staff members – One member of the UESD staff who was required to administer the AZELLA test and assist ELL students speaks no English. This created an obvious problem for a test and procedures written in English. This person has been removed from the position.
  - d. Performance Audit Findings – UESD has just recently started receiving funds for the ELL program but students are not being properly identified. This money may need to be returned if non-compliance continues. The amounts collected that may be at risk are as follows:

<b>Fiscal Year</b>	<b>Student Count</b>	<b>Weight Count</b>	<b>Collected Budget</b>
2006 – 2007	252.7	.115	\$ 92,220
2007 – 2008	401.0	.115	152,133
Total			<u>\$ 244,353</u>

UESD needs to complete the evaluation and documentation required to properly identify the ELL students and those students progress to fluency. This is a major step that needs to be completed before the next logical steps can be taken. Due to budget and resource constraints, this may be all UESD may be able to accomplish during the 2007-2008 year. If that is the case, UESD may continue to receive non-compliance ratings during the six month and twelve month Performance Audit follow ups.

4. **No Textbook or Curriculum Coordination and Planning** – Each of the three schools are using different reading programs. This poses the challenge of continuous skill mastery and student achievement expectations in addition to hindering staff development efforts. There is no documented curriculum list that has been subjected to proper piloting and implementation policies (IGD <sup>7</sup> and IGE <sup>8</sup>) and regulation (IGE-R<sup>9</sup>). The required creation of the curriculum and curriculum guides has not been done at UESD. TESD staff have assisted UESD in acquiring the Houghton-Mifflin Reading Series for Dos Rios in accordance with the required policies. Training sessions have already been scheduled with the company representative and the first session is now complete.
5. **Not all staff are “Highly Qualified”** – Many staff members were either not certified or had been emergency certified making UESD non-compliant with the highly qualified requirements. Two staff members were inappropriately paid from Title I money. Under **NCLB**, all Title I employees must be highly qualified and these employees were not. Finally, letters required to be sent to parents informing them that their child was being taught by a non-highly qualified teacher were never sent.

TESD is assisting UESD in verifying all credentials of UESD teachers and is putting procedures in place to assure that Title I monies are not used inappropriately.

6. **Teacher Lesson Plans Not in Compliance with State Standards** – Each school had its own requirements for teacher lesson plans. Several teachers told TESD staff that they did not write lesson plans and had never been required to do so. TESD staff found that most teachers were not provided a copy of the state lesson plan standards or performance objectives for their respective subjects. TESD staff found no evidence that the UESD superintendent or principals filed the Declaration of Curricular & Instructional Alignment to the Arizona Academic Standards form to the ADE, as required. TESD staff is working closely with UESD staff on the lesson plan deficiencies and will continue to do so under the IGA. The Declaration of Curricular & Instructional Alignment has been submitted by the Chief Education Officer and the Board for the 07/08 school year.

<sup>7</sup> I-1050 IGD Curriculum Adoption, legal reference A.R.S. 15-721 and 15-722.

<sup>8</sup> I-1100 IGE Curriculum Guides and Course Outlines, Legal reference A.R.S. 15-341, 15-701, and 15-701.01.

<sup>9</sup> I-1101 IGE-R Regulation for Curriculum Guide and Course Outlines.

7. **No Teacher Evaluation Instruments** – A review of UESD Governing Board Policy showed a reference to a teacher evaluation instrument but no evidence was found as to its implementation. Interviews with staff indicated that each school had its own Evaluation Instrument. Evaluations reviewed by TESD staff were generally late and incomplete. It is TESD's opinion that the form used does not meet national and state requirements and is, therefore, inadequate. TESD staff has worked with the UESD staff to implement the Charlotte Danielson Enhancing Professional Practice model for teacher evaluation. The use of this instrument should provide a standardized methodology for performing teacher evaluations at UESD. A copy of this evaluation instrument is attached to this report.
8. **Inadequate Professional Development/Training for Certified Staff** – UESD does not have an effective staff development program. Each school is responsible for its own program and little or no coordination between the schools was done. This lack of staff development is seen as a contributing factor to the poor student achievement. Unfortunately, scarce resources caused by the financial mismanagement of the previous administration will limit what can be accomplished in the short-term. UESD staff, in conjunction with Dr. Hamilton, will be identifying the basic needs and academic priorities. Dr. Hamilton has scheduled an early release program starting in October and will begin staff development training around needs identified by the staff as well as State requirements.
9. **Minimal Support Resources** – The previous District administration chose to set priorities in support operations and non-academic building equipment such as purchasing an excessive number of busses, purchasing additional administrative vehicles, adding new grounds maintenance equipment, and purchasing golf carts rather than spending the funds on more basic educational equipment and services. Essential teacher equipment was never budgeted for as the district grew.

Appropriate budgets for each school have been set by the Receiver, with the assistance of TESD, in accordance with the AASBO Data Collection project. In past years, teachers had been supplied with nonessential classroom supplies. Some teachers have complained about the reduction in those resources for the 2007-2008 year. However, the previous administration's purchase of excessive materials over the past three years was a significant contributing factor to the over-expenditures that occurred.

10. **Lack of Intervention Programs** – Reading coaches and other interventionists at each school were placed in the classroom due to budget and staffing issues. Additionally, there is no district-wide assessment tool in place to identify the students in need of these intervention programs. The District was investigating the purchase of a software system that would have provided that information after a three-year data gathering period but implementation and budgetary issues forced the cancellation of that purchase. TESD is assisting UESD staff in establishing assessment programs to identify the students who need assistance. Once the needs of the students are identified, then the necessary coaches and interventionists will be added as funding becomes available.
11. **Inadequate Recruiting and Retention of Staff** – The District has no formal recruitment plan. UESD attempts to find teachers as the year progresses. Quite often the principals had to find their own teachers. The problem is only exacerbated by the growth in ADM. Inadequate orientation and the lack of professional staff development, mentioned above,

result in frustration and disillusionment, making it even more difficult to retain new staff once they are found and hired.

Formal Certified Staff Handbooks have been created at UESD for the first time. These have been given to all existing staff and will be given to new staff on their start date. Involving the staff in the operation and policies of the District should also make recruitment and retention easier. Many teachers have commented that this is the first time that they have ever seen these expectations.

12. **Inexperienced Administrators** – The District administration, most notably the principals and Human Resources Manager are very inexperienced. The principal at Dos Rios is brand new in that role and principal at Union Middle is functioning in an interim capacity. The principal at Hurley Ranch is only in her second year. This inexperience does not allow the principals to develop or mentor staff adequately.

The Human Resources Manager is only in his second year in that position. His inexperience and lack of effective training has caused several concerns with regard to hiring and record retention. However, it is believed he will become an effective administrator with the proper professional development and training.

TESD administrative staff will focus some effort on proper professional development and training for these UESD administrators.

13. **Lack of Discipline Programs** – None of the schools had formal policies with regard to student discipline. Each school utilized its own discipline programs and none of these programs were documented or communicated to parents. This created frustration for both the parents and UESD staff. There were limited suspensions during the 2006-2007 school year and returning staff indicated that many were overturned at the district level. A formal discipline program has been instituted at Union Middle school, with the assistance of UESD administration and the ATLAS teachers assigned to Union Middle school. This policy does meet the requirements set forth in Policy JK10 and Regulation JK-R11. Once the teachers and administrative staff at Union Middle School are comfortable with the new discipline policy and it has been deemed successful, it will be expanded district wide.

14. **Inadequate Protection of Confidential Student and Employee Records** – A box was discovered in the back of one of the Union Middle Schools classrooms which contained confidential employee information, including folders on each teacher with information regarding evaluations and copies of teaching certificates. The Human Resources Manager was asked how evaluations were handled and was informed that the principals kept them until the employee left. Then the paperwork was turned over to the District office. This is not only poor record keeping, but also a violation of the teacher's privacy. A new policy was immediately implemented requiring all original evaluations to be sent to the Human Resources Manager with one week of both the fall and spring required completion dates.

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<sup>10</sup> J-4600, JK Student Discipline, Legal Reference A.R.S. 13-403, 13-2911, 15-341, 15-342, 15-841, 15-842, 15-843, and 15-844.

<sup>11</sup> J-4611, JK-R Regulation for Student Discipline.

Records of former students as well as some financial records are being housed in an old shed behind the District office. These will be reviewed and placed in a more secure location. This was another potential violation of privacy issue.

- 15. No Formal District Policy for Staff** - Three employees of Union Jr. High submitted a Leave Request Form to take hours off during the day for various reasons (Dr. appointment, to fix a tire, take wife to an appointment) to Dr. Hamilton for approval. The teachers informed Dr. Hamilton that this was common practice in the past and that an aide or full-time substitute teacher would cover the classroom.

Teachers also informed Dr. Hamilton that they were allowed to take as many personal days as they needed, without regard for accrued time and/or classroom coverage. For example, one teacher left for an eight day vacation on the Wednesday of the second week of school. His expectation was that he would be paid for all those day since that was past practice. District policy allows employees to use up to two of their sick days per year for personal business. While an employee may be approved for more than two personal days, they will not be paid for the additional days.

It was brought to Dr. Hamilton's attention during the first week of school that an "aide" at Dos Rios was being paid while performing student teaching. This student teacher was being paid as an aide with requisite benefits. This is a not a valid use of school budgetary funds.

All of the above practices have been halted by Dr. Hamilton. New Employee handbooks for both certified and classified staff have been created and distributed to employees. This practice was halted immediately since it is a not a valid use of school budgetary funds.

- 16. Transportation Issues** – TESD staff has been operating the UESD transportation program under the IGA. The following deficiencies have been identified:

- a. Inefficient bus routes – Bus routes and bus capacities were poorly designed. UESD's cost for transportation was running close to \$8.00 per mile, as compared to similar districts averaging approximately \$2.50 per mile. This issue was also noted by the Auditor General in the Performance Audit Report.

According to Christensen, TESD has redesigned the routes and changed bussing requirements resulting in a reduction in cost per mile of almost half. Additional changes are being considered that may reduce the per mile costs even further. However, the higher cost is generally associated with the configuration of the schools. Three K-8 schools, instead of the current two schools of K-6 and one 7-8, could reduce this per mile cost by approximately \$2.00. Unfortunately, Union is not adequate to support the student numbers to make this a K-8 school.

- b. Special education transportation – As previously discussed, UESD had awarded several contracts to outside companies that cost UESD in excess of \$400,000 per year. One of the companies was required to have someone "on call" each day, regardless of need.

These contracts have now been cancelled by the Receiver. One vendor is threatening a lawsuit over the contract cancellation but the Receiver believes this claim is without merit due to the fact that no purchase order was issued and that

the company in question is claiming they have a multi-year contract, which UESD had no authority to enter. Further investigation into these companies will be necessary to see if there are any additional issues or causes for action.

- c. Job sharing by bus drivers – Bus drivers performed other tasks when not driving, allowing the drivers to work more hours. There was no oversight to this process by UESD and the resultant overtime significantly contributed to the budget overage.

Job sharing has been eliminated at UESD and a no overtime policy has also been implemented. This is resulting in significant savings and also freeing up UESD drivers to assist with the special education transportation issue.

- d. Driver records were not in compliance with state law – A review of the driver records showed that some drivers were not current on certifications, trainings and required drug screenings. Drivers were not tracking daily mileage as required by the USFRs. Drivers were not cleaning their own busses, which resulted in more overtime for mechanics and helpers. Finally, there was no documentation that drivers had completed the pre-trip form as required by the Arizona Minimum Bus Standards.

TESD had implemented their policies and procedures, approved by DPS, at UESD. All requirements are now being met by the UESD drivers.

- e. Equipment not strategically acquired – Union acquired up to twelve busses at the same time, using bond money. All of these busses will require replacing at the same time in the future, creating another significant one-time expense at UESD. A lease purchase option was utilized to acquire three of the busses. Only one wheelchair compatible bus was acquired, which was insufficient for special education transportation needs. This decision contributed to the outsourcing issue discussed above. Cameras and radios were not purchased as part of the bus but rather added afterward, using bond money. As discussed earlier, there was an apparent misuse of bond money, which necessitated the reclassification of expenditures for accounting purposes.
- f. As discussed earlier, this was a misuse of bond money, resulting in a reclassification of the expenditure for accounting purposes. UESD did not acquire standard state contract vehicles, which is a violation of state procurement policy. Finally, UESD did not purchase bus repair parts and supplies under cooperative agreements, resulting in another procurement violation.

Procurement issues have been addressed by both the Receiver and TESP staff. The issues regarding the busses are still being investigated for possible solutions.

- g. Insurance claims – UESD failed to file an insurance claim during the 2006-2007 fiscal year for stolen bus radios due to vandalism. UESD paid approximately \$1,000 per bus out of M&O funds to repair the damage. Not all busses were repaired.

TESD bus maintenance staff completed the repairs at a cost of approximately \$300 per remaining bus. A new risk management plan has been put in place at

UESD to ensure timely insurance claim filing should a similar event occur in the future.

**17. Miscellaneous personnel issues** – The following issues were noted regarding the human resources area:

- a. Employment reference checks are not being completed in accordance with Arizona State Law – Under the IGA, TESD has provided access to Universal Background to use as the primary employee screening tool.
- b. No effective administrative or classified employee evaluation procedure – Principals have been registered for qualified evaluator training.
- c. No procedures to monitor work time, over time, and absences – Most staff have been cut from 12 months to 10 months and some staff has had hour reductions from 8 hours per day to 6 hours per day. These rules are serving to minimize overtime.
- d. No employee handbooks for classified staff – New employee handbooks were created and employee training has been held to ensure understanding and compliance.

## **Scope of Engagement, Progress, and Findings**

The following topics are responsibilities and goals assigned to the Receiver in ARS § 15-103. In addition to these responsibilities, the Receiver is charged with objectives in the Consent Order. Maintaining and improving the quality of education for UESD students is a primary objective for the Receivership. The Receiver also has a responsibility to maintain and, if possible, improve the quality of education at UESD. The following topics are responsibilities of the Receiver according to ARS § 15-103, the consent order and the school review.

ARS § 15-103 (F) contemplates that the Receiver, in his financial improvement plan requests the State Board of Education to authorize the Receiver to continue to utilize certain powers specifically enumerated in ARS § 15-103 (F) (1-11). Accordingly, the Receiver requests that the State Board of Education empower the Receiver to continue to have all of the authority, powers and duties outlined under ARS 15-103 (F) (1-11) until such time as the District becomes financially stable..

- a) **ARS § 15-103 (F)(1): Override any decisions of the school district's Governing Board or the school district superintendent, or both, concerning the management and operation of the school district, and initiate and make decisions concerning the management and operation of the school district.**
  - i) The Governing Board in place at the time of the Receiver's appointment was comprised of President Elaine Dawson (elected November 2006, term expires December 31, 2010), Luis Sanchez (served January 2004 through December 2004, then appointed March 2006, elected November 2006, term expires December 31, 2010), and Delson Sunn (elected November 2006, term expires December 31,



2008). Ms. Dawson submitted her resignation to the Board at the August 9, 2007 Board meeting. In late September, the Maricopa County School Superintendent appointed Joshua Hitt to the Board..

As of this report, there has been no occasion for the Receiver to override any new decisions by the Governing Board. On occasion, the Receiver offered amendments to some decisions made by the Governing Board, which were accepted and approved by the Board. Several policies that were put in place in the past have been changed or eliminated by the Receiver, and the Governing Board has consistently voted to approve and support those changes.

The Receiver will continue to monitor the Governing Board for the duration of the Receivership. Control of the Governing Board still remains with individuals who previously presided over the gross mismanagement. It is the opinion of the Receiver that to ensure repayment of all state aid and ensure the financial well being of the District, the Receiver should stay in place until the financial condition of the District can be assured by the Governing Board and the district superintendent. The Receiver should have a significantly reduced role and therefore, lower costs during the later years of the Receivership.

The Receiver requests that the State Board of Education continue his authority to override Governing Board decisions to ensure financial responsibility of UESD going forward. Other external accounting controls such as external auditors and the Maricopa County School Superintendent do not have the authority to override decision of the Governing Board.

**b) ARS § 15-103 (F) (2): Attend any and all meetings of the school district's Governing Board and administrative staff.**

- i) The Receiver and/or Mr. Christensen, have attended Governing Board meetings and participated in administrative staff meetings, as required. Preparations are being made to begin a series of meetings between the Receiver, the interim superintendent, and the principals and staff of each school.
- ii) The Receiver has met with former board member Dawson and board members Sanchez and Sunn individually and collectively at board meetings. Governing Board meetings have typically been held on the second Thursday of each month at 6:00 pm in the library of the Hurley Ranch school, although the Board did not meet in September due to scheduling conflicts. The Receiver has attended all meetings either in person or via teleconference, reviewed and approved the Board agenda prior to the meeting, and reviewed all decisions made by the Board after the close of the meetings. In the future, the Receiver may not attend all Governing Board meetings as control of the District is transferred back to the Governing Board. The Receiver intends to assess all Governing Board agendas and minutes. Regardless of meeting attendance, the Receiver will continue to monitor the Board for the duration of the Receivership.

- iii) The Receiver is preparing for UESD to function without day-to-day instruction from the Receiver as soon as possible. For this reason, the interim administration put in place by the Receiver is now attending many administrative meetings without the Receiver. The interim administration consults with the Receiver prior to such meetings for guidance and planning, then briefs the Receiver following the meeting to provide any new information or plans. Many day-to-day decisions are being made by the interim administration, and the Receiver is quickly transitioning to a monitoring role as opposed to a management role.

The transition phase of the Receiver to a monitoring role is almost complete. There is a new, albeit temporary, administration in place, which is instituting financial and educational controls in the school district. The Receiver is confident in the abilities of this new administration, and while there will be unforeseen obstacles and set backs, UESD is staffed to excel. The superintendent and business manager continue to operate under the terms of the IGA, which is in place until June 30, 2008. This IGA may be extended for an additional year until June 30, 2009, with the approval of both the TESD and UESD Governing Boards. The hiring of a new superintendent and business manager will be addressed as the expiration date of the IGA draws closer. One primary factor that will affect the timing for hiring these positions is the recommendation of the Arizona School Redistricting Commission and the outcome of any consolidation vote.

The Receiver will soon start the second phase of the Receivership, which will include monitoring and investigation; these phases are discussed in greater detail in the "Financial Improvement Plan" section of this report.

**c) ARS § 15-103 (F)(3) Supervise the day-to-day activities of the school district's staff, including reassigning the duties and responsibilities of personnel in a manner that, in the determination of the Receiver, best suits the needs of the school district.**

- i) The IGA with TESD, the appointment of Dr. Hamilton as Chief Education Officer, and the utilization of Simon staff have allowed the Receiver to supervise day-to-day activities of the District including the review of all financial decisions, budgeting, reporting, and planning. In this period of time, several teachers and administrative employees submitted their resignations and six new teachers were hired to reduce classroom size. Many hourly employees have had their contracts reduced from 12 months to 10 months and others have had weekly work hours cut to more efficiently utilize the personnel resources as necessary. Overtime, a significant source of past overspending, has been virtually eliminated.
- ii) The District is capable of functioning for all normal business procedures. All expenditures are still approved by the Receiver or its designated representatives, and daily conversations with the interim administration ensure that the Receiver is still in complete control. Significant events outside of the control of the Receiver or UESD may change these circumstances in the future, but going forward, the

Receiver plans to continue to reduce its role in the daily operation of UESD. The Receiver's transition to a monitoring role is detailed in the "Financial Improvement Plan" section of this report.

- d) ARS § 15-103 (F)(4): Place on extended leave, suspend or terminate for cause the school district's superintendent or chief financial officer, or both. A person terminated pursuant to this paragraph may appeal the Receiver's decision to the state board of education if an appeal is filed with the state board within thirty days of receiving notice of the termination.**

- i) The Receiver negotiated the resignation of following administrators in significant positions of leadership or financial responsibility:
- (a) Justin Greene, Superintendent – Effective July 20, 2007
  - (b) Lisa Smith, Business Manager – Effective July 20, 2007

Neither of these former employees has appealed to the State Board of Education, and the time under ARS § 15-103 for an appeal has expired for both of the resigned administrators.

- e) ARS § 15-103 (F)(5) Authorize pupils to transfer from schools operated by the school district to schools operated by another school district that is not currently in receivership.**

- i) To the Receiver's knowledge, no students have elected to transfer to another district or school as a result of the Receivership, although it is clear that student have transferred as a result of the condition the District was in prior to receivership.
- ii) Currently, the Receiver estimates that student enrollment will increase in coming years. According to Christensen, ADM increased from 1,337 at the end of the 2006-07 school year to approximately 1,645 as of the date of this report.
- iii) The Receiver is still researching the available options for making the District more financially efficient.

- f) ARS § 15-103 (F)(6): Appoint a chief educational officer who shall possess the powers and duties of a school district superintendent. A chief educational officer who is appointed pursuant to this paragraph shall hold a valid administrative certificate.**

- i) The Receiver is utilizing the services of TESD Superintendent William Christensen as Interim Superintendent under the IGA with TESD. Mr. Christensen has twelve years of experience in the education field and is currently the superintendent of TESD. Mr. Christensen previously worked for TESD as their business manager before assuming the superintendent's role. The Receiver also appointed Dr. Diane Hamilton, the former TESD superintendent, to function as the Chief Education

Officer for UESD. Dr Hamilton has over 35 years in education and was the superintendent of TESD for 11 years prior to Mr. Christensen taking over.

The Receiver may need to appoint other administrative personnel should the IGA terminate or Dr. Hamilton resign.

**g) ARS § 15-103 (F)(7): Appoint a chief fiscal officer who shall possess the powers and duties of the school district's chief school business official and any other duties regarding budgeting, accounting and other financial matters that are assigned to the school district by law.**

i) The Receiver is utilizing the services of TESD Business Manager Daniel O'Brien under the IGA with TESD. He has over six years of school district finance experience and holds a Certificate in School Budget Finance, a Certificate in Schools Accounting, and a Certificate in School Business Management from AASBO.

**h) ARS § 15-103 (F)(8): Appoint a competent independent public accountant to audit the accounts of the school district.**

i) The Receiver retained Heinfeld & Meech ("H&M"), already under contract, to perform the audit for the 2007-08 fiscal year. H&M has a proven track record in auditing school districts. Their expertise allowed H&M to audit the District constructively and efficiently. H&M is not scheduled to begin the annual audit process until March 2008.

Once the current audit contract expires at the end of this fiscal year, the Receiver will request bids for the following year's audit by following the Request for Proposal process set forth in the USFR.

**i) ARS § 15-103 (F)(9): Reorganize the school district's financial accounts, management and budgetary systems to improve financial responsibility and reduce financial inefficiency within the district.**

i) The Receiver analyzed the process by which UESD executes and records financial transactions and information. This analysis identified numerous inefficiencies and integrity issues in the accounting systems and methodology employed by the District. The Receiver also considered the finding of the Auditor General's office regarding USFR violations in determining the issues to be considered. To correct these issues, the Receiver has implemented numerous procedural controls and infrastructure changes that will improve the efficiency, accuracy, and integrity of UESD's accounting system. Most notably among the changes is the adoption of the Genesis software package for school attendance tracking. However, Genesis will incur costs going forward. A new dedicated server, a new license for version upgrades and support fees will be paid by UESD. The estimated

maintenance/support cost, including the required additional T1 line, is approximately \$10,000.

**j) ARS § 15-103 (F)(10) Establish school district fiscal guidelines and a system of internal controls, including internal administrative controls and internal accounting controls, with provisions for internal audits.**

- i) Starting in October 2007, detailed analyses will be performed randomly by the Receiver to ensure compliance with the USFR, Governing Board policy, and the new accounting controls put in place by the Receiver. These evaluations will be performed on a monthly basis for the first six months, then transition to a quarterly basis for the following 6 months. Each evaluation will consist of one or more representatives from the Receiver traveling to UESD and checking historical work to ensure proper procedures were performed for each work sample. During these evaluations, the Receiver will critique the process by which accounting rules are followed rather than checking to see that the letter of the law was followed. By participating in these evaluations, district employees will have better controls and be better prepared for future audits.

**k) ARS § 15-103 (F)(11) Cancel or renegotiate any contract, other than contracts of certificated teachers who have been employed by the school district in the capacity of a certificated teacher for more than one year immediately before the date the Receiver was appointed, to which The Governing Board or the school district is a party if the cancellation or renegotiation of the contract will produce needed economies in the operation of the district's schools. The Receiver may refuse to reemploy any certificated teacher who has not been employed by the school district for more than the major portion of three consecutive school years as provided in section 15-536.**

- i) Several teachers have resigned from UESD since the Receiver took over. It is not anticipated at this time that any additional teachers will resign before the end of the school year. There is some indication that a small number of teachers will not renew their contracts due to other opportunities or retirement. There may be other teachers who ask to leave in the future.
- ii) All teacher contracts will be reevaluated for the 2008-09 school year. New employment contracts implement a compensation scale that will be applied to all salary and hourly staff. A copy of the currently adopted salary schedule for both certified and classified personnel is included as an attachment to this report.

## **Financial Improvement Plan**

The financial improvement plan details how the District will attempt to eliminate the gross financial mismanagement and achieve financial solvency. The Receiver has divided the financial improvement plan into two sections: financial and operational. Each part of this plan is essential to the success of the school and correction of any gross mismanagement issues that occurred

under the previous administration. Unfortunately, there is serious doubt as to whether the District can be “fixed” by the Receiver without extreme measures or legislative assistance.

### ***Financial Plan***

In light of the gross financial and educational mismanagement of UESD, the Receiver, together with Christensen and other experts, have considered various options including, but not limited to, the items discussed below. It may be necessary to combine more than one option to arrive at a final workable plan.

1. **Restore the budget capacity at UESD** – Due to the overspending by the previous administration, which is now totals \$2,170,173, UESD has to reduce its allowed budget capacity by that overspent amount over the next five years. If reduced equally over the five years, UESD’s budget capacity for 2007-2008 must be reduced by approximately \$440,000, plus interest at a rate to be determined, more than a 6% reduction. Given the educational shortfalls identified during the Receiver’s investigation, the Receiver does not believe that budget reductions of this magnitude can be made and make the necessary educational improvements to move the UESD schools out of the Underperforming and Failing classifications. Regardless of any other decisions with regard to UESD, this is imperative to guarantee the proper education of the children in UESD. This budget capacity repayment is in addition to the SFB Fund 695 over expenditures, in the amount of approximately \$2,100,000, that will also need to be repaid.
2. **Legislative merger with another elementary school district** – Legislative merger would solve several issues with UESD. First, duplicate administration costs would no longer be incurred. Second, the “acquiring” district could implement its existing curriculum, ELL, and special education programs at UESD, accelerating the move to compliance with existing law and regulations. Third, the Receivership would immediately terminate, eliminating any further costs from the Receiver. Finally, excessively high tax rates in UESD could be mitigated somewhat by the blending of the budgets of the consolidated districts.

Legislative assistance may be required due to UESD voter’s reluctance to approve the consolidation as required by current law. The over expenditure in the SFB Fund 695 of approximately \$2,100,000 would also need to be addressed since no district is likely to be interested in consolidating with UESD and assuming that debt. Teacher contracts would have to be assumed by the consolidated district to avoid any remaining liability to UESD.

A new 10-7-5 legislative option may be required to help offset this additional debt. In the past, when two districts consolidated, the state gave the new combined District an additional 10% of its Revenue Control Limit (“RCL”) in the first year to help off set the cost of the consolidation. The state would also provide an additional 7% in the second year and an additional 5% in the third year. The restoration of this program by the Legislature would provide additional monies to pay debt while allowing the new

consolidated district to implement the educational changes to bring the old UESD schools into compliance.

3. **Close Union Middle School and transfer just those students to another district** – Closing the one school and allowing those students to attend another area middle school could save UESD significant money. Union Middle school is the oldest and smallest of UESD's three schools and requires above average maintenance. Approximately \$680,000 could be saved, primarily in utilities and labor, if this school were closed

The anticipated savings would probably not be sufficient to make the necessary improvements at the other two schools and still repay the overdue SFB Fund 695 amount. It is unlikely that all of the teachers currently at Union Middle school would be hired by other districts, leaving UESD with a payroll liability that could eliminate some or all of the estimated savings. Students would be required to commute a further distance, lengthening the amount of time spent on a bus. ADM monies would be lost to the districts that accepted the former UESD students. Finally, Receivership costs would still be incurred to oversee the remaining two schools at UESD.

4. **Maintain the status quo** – As evidenced by this report, UESD will be unable to meet either its financial or educational obligations without some changes being made. First, the budget capacity will need to be restored to allow UESD to hire teachers and make the necessary changes to bring the schools in the District up to the Performing level. Second, some accommodation will have to be reached with the SFB Fund 695 creditors to allow UESD to pay off these debts over an extended period of time. Third, it will probably be necessary to continue UESD in Receivership while the debt is being repaid and the educational changes made to ensure compliance with law and regulations. The Receiver does not foresee maintaining the status quo as feasible.
5. **Create a transportation only district** – Closing all three schools and then operating the busses to transport the students to other districts was considered by the Receiver. Some savings would be realized since UESD would retain the budget transportation dollars to perform this task.

UESD is already spending above the state average to bus their students and this higher cost would probably cause UESD to continue operating at a loss. It is unlikely, therefore, that UESD would be able to operate as a transportation district and be able to repay the SFB Fund 695 creditors. It is also unlikely that all of the teachers currently at Union Middle school would be hired by other districts, leaving UESD with a payroll liability that could eliminate any savings. Students would be required to commute a further distance, lengthening the amount of time spent on a bus. Finally, some Receivership or other administrative costs would still be incurred to oversee the operation of the transportation function.

6. **Close the District** – There does not appear to be authority permitting the closure of the District. Even if the District could close and sell its property, it is not clear that

the proceeds could be used to or would be sufficient to pay off the outstanding bonds and creditors. It is unlikely that all SFB Fund 695 creditors would be paid under this scenario.

7. **Place the District in bankruptcy proceedings** – This has never been done in Arizona and the merits of this option are unclear. It is expected that the SFB Fund 695 over expenditure would be either restructured or eliminated but UESD would still have a difficult time meeting their educational goals with the reduced budget capacity. Further, the administrative and filing costs for a bankruptcy proceeding could be significant.

### ***Operational Plan***

Currently, the District is working towards “independent functionality” without the daily assistance of the Receiver. However, the success of the operational plan is completely dependent on solving the financial issues of UESD. Without the financial solution, sufficient money will not be available to make the changes described below.

The operational improvement plan contains two vital steps.

1. **Ensure compliance with all USFR and Federal guidelines:** The Receiver has implemented the aforementioned procedural policies and practice with the District. In order to ensure that the District is operating in compliance with the USFR and all Federal guidelines, the Receiver is fostering relationships between the interim administration and regional or state authorities on said guidelines.

By working closely with State and regional authorities, the District will ensure compliance and build quality relationships that will help improve the District over time. The Receiver will continue to look for opportunities for the new administration to work more closely with their peers outside of the District.

2. **Monitor the performance of the District through periodic detailed evaluations:** The Receiver plans to use the Receiver evaluations to improve the job performance and knowledge base of the administrative staff, and as a mechanism for monitoring the relationship.

Receiver evaluations consist of one or more agents of the Receivership traveling to UESD and selecting a sample of employees for evaluation. The size of the sample will be determined by the time available and the detail that the Receiver feels is necessary to explore. Selected employees will provide the Receiver with their procedure binder. The procedures in this binder will be compared to pertinent USFR and ARS guidelines for compliance.

Once the procedures are deemed compliant with the USFR and ARS, the Receiver will select a sample of work performed by the employee and compare it to established procedures. The Receiver will analyze the work sample to ensure that the employee followed the procedures and documented their work.




At the end of the Receiver evaluation, the Receiver will review what was done in a detailed analysis, report any deficiencies to the employee and their supervisor, and create a plan for correction of the deficiencies in future work.

These Receiver evaluations are vital to the effective reformation of the District. The Receiver's evaluations are learning experiences for the employees and monitoring activities for the Receiver.

## Conclusion

The Receiver desires to implement the financial improvement plan set forth above as required by ARS § 15-103. While part of this plan contemplates reduced involvement of the Receiver in day-to-day operations of the District, the District's serious financial condition and the lack of available options for recovery requires substantial continued involvement by the Receiver. Execution of the financial improvement plan requires the extension of all authoritative powers previously granted to the Receiver by the State Board of Education. The Receiver therefore requests that the Board extend the authority of the Receivership as enumerated in sections (F)(1) through (F)(11) of ARS § 15-103.

The Receiver believes UESD requires Legislative assistance to fix its dire financial and educational situation.

  
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Peter S. Davis  
Simon Consulting, LLC  
As Receiver  
for Union Elementary School District

10/15/08

Date